

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE JUNE 18, 2008 PENSION BOARD MEETING

1. Call to Order

Chairman Dr. Dean Roepke called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford (Vice Chair^{*})

Donald Cohen

Roy Felber

Mickey Maier

Jeffrey Mawicke

Marilyn Mayr

John Parish

Dr. Dean Roepke (Chairman)

Members Excused:

Dr. Sarah Peck

Others Present:

David Arena, Director of Employee Benefits, Department of Administrative Services

Mark Grady, Principal Assistant Corporation Counsel

Gerald J. Schroeder, Interim ERS Manager

Vivian Aikin, ERS Administrative Specialist

Sushil Pillai, V3 Project Manager

Steven Huff, Reinhart Boerner Van Deuren s.c.

Leigh Riley, Foley & Lardner LLP

Kristin Finney-Cooke, Mercer Investment Consulting

John W. Gray, Adams Street Partners

Mellysa Kaniok, Adams Street Partners

Virginia Schumann, Retiree

Louis Metz, Retiree

Nancy Beck-Metz, Retiree

Jack Hohrein

Steve Schultze, *Milwaukee Journal Sentinel* Reporter

^{*} See section 7.

3. Chairman's Report

The Chairman welcomed Mickey Maier as the newest member of the Pension Board.

The Chairman discussed the Pension Board's committee structure and inquired whether any member would like to join the Audit Committee or the Investment Committee. He noted that committee participation is voluntary, but very valuable to the Board.

4. Minutes

(a) Minutes of the April 16, 2008 Pension Board Meeting

The Pension Board reviewed the minutes of the April 16, 2008 Pension Board meeting, which incorporated the changes suggested at the May 21, 2008 Pension Board meeting.

The Pension Board voted 7-0-1, with Dr. Roepke abstaining due to his absence from that meeting, to approve the minutes of the April 16, 2008 Pension Board meeting with the approved changes. Motion by Mr. Cohen, seconded by Ms. Bedford.

(b) Minutes of the May 21, 2008 Pension Board Meeting

The Pension Board reviewed the minutes of the May 21, 2008 Pension Board meeting.

The Pension Board voted 7-0-1, with Dr. Roepke abstaining due to his absence from that meeting, to approve the minutes of the May 21, 2008 Pension Board meeting. Motion by Mr. Cohen, seconded by Ms. Bedford.

(c) Minutes of the May 28, 2008 Pension Board Meeting

The Board held the May 28, 2008 Pension Board meeting minutes over for approval until the five Pension Board members who were present at that meeting are in attendance to approve those minutes.

5. Reports of Employee Benefits Director, Interim ERS Manager and Fiscal Officer

(a) Retirements Granted

Mr. Schroeder presented the Retirements Granted Report for May 2008. He reported that 19 retirements were granted in April, noting that 8 retirees elected back DROPs in amounts totaling \$659,301.

(b) ERS Monthly Activities Report

Mr. Schroeder reviewed the 2008 ERS Monthly Activities Report. He reported that ERS has paid out \$58,935,181 in benefits in 2008, which is in line with the amount of benefits paid in 2007.

Mr. Schroeder indicated that as of April 30, 2008, there were 7,362 retirees. Approximately 85% of retirees receive their benefits by direct deposit. He stated that the Retirement Office sent letters to the 1,049 retirees who do not receive their benefits through direct deposit to encourage them to use direct deposit. He noted that approximately 60% of the people who received the letters reacted positively to direct deposit, which will raise the percentage of retirees who receive their benefits through direct deposit to 95%. Mr. Schroeder stated that the remaining 5% of retirees are probably older and appear to be strongly opposed to using direct deposit. The Chairman stated that Mr. Schroeder should address the direct deposit issue in more depth at the next Audit Committee meeting. He indicated that he will explore the issue in greater detail and report at the next Audit Committee meeting.

Mr. Schroeder stated that he received the cash flow report from Mr. Mueller. He indicated that Mr. Mueller stated that ERS has sources of funds for the June and July benefit payments, but anticipates that ERS will need \$10 million per month from August through December for benefit payments. Mr. Schroeder reported that Mr. Mueller estimated that ERS will have a \$22 million cash reserve at the end of the year. Ms. Mayr suggested that the cash flow situation be placed on next month's meeting agenda.

Mr. Schroeder discussed the creation of the Retirement Office procedures manual. He reviewed the template for the procedures and indicated that all staff will be trained on the new procedures. He noted that some procedures are being modified and that procedures will be corrected retroactively, if necessary. Ms. Mayr stated that the procedures manual should be laid over for additional comment until a future meeting. Mr. Schroeder noted that he is planning to create a series of brochures from the new procedures that will be distributed to all ERS members. He indicated that he is in the process of drafting the first brochure and distributed a template brochure format. Ms. Mayr stated that the creation of procedures are important because they represent a response to the outside auditor's comment letter. Mr. Arena opined that it is more efficient for the Board to review procedures when there are a number of them, rather than one-by-one.

(c) Waivers

Mr. Schroeder reported that Steven Kreklow, Fiscal and Budget Administrator, had signed and presented four standard waivers to the Retirement Office.

The Board unanimously agreed to accept the waivers presented. Motion by Ms. Mayr, seconded by Mr. Felber.

(d) Pension Board Member and Service Provider Contacts

Mr. Schroeder distributed a current Pension Board and service provider contact directory. He pointed out that Ms. Mayr has a new e-mail address.

6. Investments

(a) Investment Manager Report – Adams Street Partners

John Gray and Mellysa Kaniok distributed a report on Adams Street Partners' ("Adams Street") management of ERS's venture capital strategy and presented it to the Pension Board on behalf of Adams Street.

Mr. Gray stated that Adams Street has been a private equity investment manager since 1972 and currently has \$16.6 billion in global private equity assets. He noted that Adams Street spun off from UBS approximately seven years ago, and that Adams Street recently purchased the last 25% of the company from UBS.

In response to a question from the Chairman, Mr. Gray confirmed that currently private equity markets are generally oversubscribed. That is, too much money is coming in to place effectively. However, Mr. Gray explained that Adams Street believes it can effectively invest capital and explained how Adams Street raises capital on an annual basis. He noted that Adams Street began raising capital in March 2008 for its 2009 global offering. He stated that Adams Street expects to raise \$2 billion for its 2009 global offering, based on expressed desires to invest as of March 2008. The 2009 global offering commitments will become final in September 2008. He indicated that Adams Street will close its 2009 global offering in December 2008.

In response to a question from Ms. Bedford, Mr. Gray stated that the 2009 global offering will be mostly fund of funds investments. Ms. Kaniok explained that the goal is to create a well diversified portfolio across subasset classes, managers and time, to improve overall returns and reduce risk. She pointed out that Adams Street utilizes bottom-up manager selection and consistent weighting, regardless of the underlying fund size. Mr. Gray detailed the 2009 global offering, explaining how approximately 60% of the funds will be invested domestically, 30% in non-domestic developed markets and 10% in non-U.S. emerging markets. He pointed out that the 2009 global offering will be well diversified, as it will be invested in over 120 groups and over 1,000 portfolio companies.

Mr. Gray stated that returns are driven from different groups at different market cycles, and the goal of the 2009 global offering is to have exposure to all market

cycles. Ms. Kaniok indicated that the funds raised for the 2009 global offering will be invested -- like all Adams Street commitments -- over a period of four years. Mr. Gray pointed out that ERS's last investment with Adams Street was made in 2005 and the last part of ERS's 2005 commitment is being invested this year.

Mr. Gray discussed the target allocations for the upcoming investment period. He noted that Adams Street underweighted mega-buyouts in 2007 compared to the overall U.S. private equity market. Ms. Kaniok indicated that the goal for the 2009 global offering is to outperform the S&P 500 by 600 basis points.

The Adams Street representatives discussed the performance of ERS's investments. In response to the Chairman's question, Ms. Kaniok stated that the old portfolio is almost completely drawn down. Ms. Kaniok indicated that the old portfolio is not composed of investments made by Adams Street, but has been overseen by Adams Street at the request of the Pension Board. She noted that the old portfolio has reduced ERS's overall rate of return with Adams Street.

Mr. Gray reviewed the performance of the Brinson Partnership Fund Trust Program as of December 31, 2007. He discussed the status of the Brinson investment, noting that the Brinson portfolio is 92% drawn down. He also reported on ERS's investment in the Adams Street Partnership Fund. He indicated that it is still very early in the Partnership Fund's investment cycle and that the return since inception is 15.11%.

Mr. Gray discussed the state of the global private equity industry. He commented that the "golden age" for buy out managers has ended. He pointed out that four years ago the prices of companies were low and capital was available, which is the opposite of the current private equity market landscape. He indicated that venture capital returns are improving. He noted that in the biomedical industry large companies are investing in small startup companies to obtain the next generation of technology for devices and drugs. In response to a question from Mr. Maier, Mr. Gray stated that Adams Street focuses on the information technology and health care industries and places approximately 10% directly into these investments.

Ms. Bedford asked how much the political environment affects investments. Mr. Gray responded that it is very difficult to predict the effect the political environment has on the markets. In response to a question from Ms. Mayr, Mr. Gray stated that Adams Street has some investments that require Adams Street to monitor the effects of the political environment and demographics on the investments.

The Pension Board excused Mr. Gray and Ms. Kaniok from the meeting.

(b) Mercer Report

Ms. Finney-Cooke stated that Mercer sent the Pension Board a letter informing the Board of job changes within Mercer. She indicated that several people had changed positions within Mercer, but no one had left the company.

Ms. Finney-Cooke reviewed ERS' investment in private equity. She stated that ERS could continue its investment with Adams Street, which is "A" rated by Mercer, or have Mercer perform a search for a private equity manager. The Chairman stated that the Investment Committee should consider ERS's investment in private equity and the issue should be discussed at the July meeting.

Ms. Finney-Cooke presented Mercer's Flash Report for May 2008. She stated that ERS had a market value of just under \$1.58 billion at the end of May and that ERS's market value increased by 0.9% during May, which outperformed the reference index by 10 basis points.

Ms. Finney-Cooke reported that the large cap domestic equity market gained 1.8% during May, while the small cap equity market advanced 4.6%. She noted that growth outpaced value in the large and small cap spaces. She reviewed the performance of the international equity market, noting that the MSCI EAFE Index of developed markets gained 1.2%. She pointed out that emerging markets rose 1.9% in May. She stated that the investment grade fixed income market fell 0.7% during April and the high yield issues outperformed the market, gaining 0.4%.

Ms. Finney-Cooke reported that Artisan Partners was selected as ERS's new mid cap value manager, replacing Hotchkis & Wiley. She indicated that the transition of the assets from the BGI iShares to Artisan Partners should occur within the next several weeks.

Ms. Finney-Cooke reported that Mercer continues to monitor the performance of Boston Partners. She stated that the yellow highlights in the Flash Report indicate triggers from the investment policy. In response to a question from the Chairman regarding the performance of Loomis Sayles, Ms. Finney-Cooke stated that she will ask the Investment Committee to begin scrutinizing Loomis Sayles based on its five years of underperformance. Ms. Finney-Cooke stated that the ERS portfolio was well within its ranges on all investment classes.

In response to a question from Ms. Mayr, Ms. Finney-Cooke stated that there have been no additional capital calls from Adams Street. Ms. Finney-Cooke stated that the Investment Committee must meet to decide whether to commit to invest in Adams Street's 2009 global offering over a four-year period, to search for another private equity manager or to not invest in private equity. She commented that Mercer thinks that ERS should consider private equity as part of its overall

portfolio. The Chairman explained ERS's history and involvement with private equity and Adams Street. In response to a question from Ms. Bedford, Ms. Finney-Cooke stated that infrastructure investments are typically classified as alternative investments and not real estate or private equity. Ms. Finney-Cooke noted that infrastructure is an opportunistic investment strategy.

Ms. Finney-Cooke was excused from the meeting.

(c) Investment Committee Report

Ms. Bedford reported on the June 2, 2008 Investment Committee meeting on behalf of Investment Committee Chair Dr. Peck. Ms. Bedford stated that Mercer presented on risk education, which is designed to educate the Investment Committee for the asset allocation study to be performed in 2009. She noted that the presentation covered items such as tracking error, standard deviation, information ratio, style basis, Sharpe ratio and value at risk. She commented that the presentation would be a great educational piece for the entire Board. Mr. Grady requested that Mercer's presentation be distributed to the entire Board.

Ms. Bedford reported that the Investment Committee discussed a memorandum prepared by Mercer on Generation Growth Capital Funds 1, Limited Partnership, a local private equity fund. She stated that the Investment Committee will consider additional similar type firms before deciding whether to invest with Generation Capital.

Ms. Bedford indicated that the Investment Committee reviewed the recent manager changes at Baring Asset Management and will review the situation in six to nine months to determine whether any changes to Baring's methodology or process have occurred.

7. Selection of the Vice Chairman

Ms. Mayr stated that the selection of the Vice Chairman of the Pension Board provides an opportunity to reaffirm Dr. Roepke as Chairman of the Pension Board. Chairman Roepke informed Ms. Mayr that a reaffirmation of the chairman position was not on the agenda. Mr. Grady indicated that the Pension Board chairman position does not have a term and that the selection of a chairman is up to the Pension Board members. Mr. Grady noted that Roberts Rules of Order do not contain a requirement to reelect the chairman, but the Pension Board can do so. Ms. Mayr suggested adding reaffirmation of the Chairman to the next meeting agenda. Ms. Mayr asked Mr. Schroeder to research precedents to determine when elections have been held for chairman and vice chairman of the Pension Board and whether there are any term limits on the positions.

Mr. Parish nominated Ms. Bedford to be the Vice Chair of the Pension Board. Ms. Mayr seconded the nomination.

Ms. Mayr nominated Mr. Felber to be Vice Chairman of the Pension Board. No second was made.

The Pension Board discussed the backgrounds of each of the nominees for the Vice Chairman position. Ms. Bedford was first appointed to the Pension Board in 2002 and reappointed in 2005 and 2008. Ms. Bedford's current term expires in April 2011. Ms. Bedford has been involved in the real estate and finance industries for 28 years. She is a co-founder of Legacy Bank, a women-owned bank.

Mr. Felber has the second shortest tenure on the Pension Board. He was elected on February 7, 2008, and his term expires in March 2009. Since 2004, he has been the President of the Milwaukee County Deputy Sheriffs' Association.

The Pension Board voted by roll call vote to elect Ms. Bedford the new Vice Chair of the Pension Board with Ms. Bedford, Mr. Cohen, Mr. Maier, Mr. Mawicke, Mr. Parish and Dr. Roepke voting in favor of Ms. Bedford, and Ms. Mayr and Mr. Felber voting in favor of Mr. Felber.

8. Vitech Project Report

Mr. Pillai presented the ERS V3 status report. He noted that the report is now color coded to indicate areas that need attention. He indicated that red items have not been started and require management attention, yellow items are on the watch list and also need management attention, while green items are activities that are progressing on schedule. In response to several questions from Ms. Mayr, Mr. Pillai explained the difference between the new report and prior reports. In response to questions from the Chairman and Mr. Felber, Mr. Pillai stated that the official go live date for the V3 System is January 2009, but Mr. Pillai indicated that he would like to go live by December 2008. He pointed out that the new annual pay period begins in mid-December.

Mr. Pillai reviewed the key issues and challenges facing the project. He indicated that closed items and resolved issues are removed from the status report when completed. He stated that there will need to be an Ordinance resolution for the retirement date calculation.

Mr. Pillai reviewed the risk management quadrant and noted that the Retirement Office staff just began training on the new system. Mr. Arena stated that the V3 System training is conducted through a self-training software program. He indicated that the \$20,000 training cost is being shared with two other County departments that will be using the V3 System.

Mr. Pillai discussed the high level budget summary. He pointed out that the only change is that the \$77,986 contingency charge is now a budget line item instead of a footnote. He stated that the budget has not changed from last meeting. He indicated that ERS received a modest 2006 refund from Vitech. In response to a question from Mr. Felber, Mr. Pillai stated that Mr. Campbell and two others were let go from their positions at the end of April.

9. Vitech Implementation Oversight Committee Report.

Mr. Parish reported on the June 10, 2008 meeting of the Vitech Implementation Oversight Committee. Mr. Parish indicated that the Vitech Implementation Oversight Committee stressed the importance of training the Retirement Office on the V3 System. In response to a question from Ms. Mayr, Mr. Parish stated that the Vitech Implementation Oversight Committee discusses the same ERS V3 status report that the Pension Board discusses at its meeting.

10. Audit Committee Report

Mr. Parish reported that the most recently scheduled Audit Committee meeting was canceled. He stated that the next Evaluation Panel meeting is scheduled for June 30, 2008 at 1:00 p.m. in the Commission Room.

11. Administrative Matters

(a) Future Topics

The Pension Board discussed the future topics list. Ms. Mayr stated that an Ordinance amendment is required for compliance with the Internal Revenue Code. She suggested adding the proposed Ordinance amendment to the August Pension Board meeting agenda so the Ordinance can be presented to the County Board of Supervisors at its September meeting.

Ms. Mayr inquired whether formal Board actions must be taken to authorize Pension Board committees. The Chairman stated that any extensive discussion about formalizing the Pension Board committees would need to be added to a future meeting agenda because the topic is not listed on the current agenda. Mr. Grady stated that the two standing committees, the Investment Committee and the Audit Committee, have been created and documented in the Board's meeting minutes. He stated that the Pension Board could formalize the committees by creating an ERS Rule. The Chairman stated that the committees were created to reduce the Board's workload and shorten Board meetings. He notes that there is nothing preventing any member from being on one or both of the committees because membership is optional. Ms. Bedford provided the example of how having the Investment Committee preliminarily select ERS's investment managers

shortens the length of the regular Pension Board meetings and the selection process, because the Pension Board members would otherwise need to do all the due diligence themselves and discuss the topic at monthly Pension Board meetings. Ms. Mayr suggested that the Pension Board could create a written record authorizing the committees. Mr. Grady reiterated that an ERS Rule could also be created. The Chairman noted that the Board should consider the issue of formalizing the committees and indicated that any Board member should contact him if he or she wants to add this issue to the next meeting agenda.

(b) International Foundation of Employee Benefit Plans Investments Courses

The Chairman stated that the International Foundation of Employee Benefit Plans Investments Courses at the Wharton School will be held on August 25-27, 2008 in San Francisco. He noted that the courses will focus on international investing and emerging markets.

The Pension Board unanimously approved the attendance of Dr. Roepke, Mr. Parish, Ms. Bedford and anyone else who would like to attend the Investments Courses at the Wharton School in San Francisco on August 25-27, 2008. Motion by Ms. Bedford, seconded by Mr. Parish.

Ms. Bedford stated that Pension Board members are encouraged to attend 30 hours of training each year and that new members are especially encouraged to attend new trustee training. Mr. Grady indicated that all Pension Board members are members of the International Foundation of Employee Benefit Plans. The Chairman stated that as International Foundation members, all Pension Board members can access the International Foundation's library. Ms. Mayr inquired how training hours are tracked and reported. She stated that Board members can take three training-related trips per year outside the greater-Milwaukee area.

12. Pending Litigation

Ms. Bedford moved that the Pension Board adjourn into closed session for the purpose of receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation and for considering the financial, medical, social or personal histories or disciplinary data of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories or data.

The Pension Board unanimously agreed to enter into closed session to discuss Agenda Items 12, 13 and 14. Motion by Mr. Cohen, seconded by Mr. Mayr.

The Board discussed the following pending litigation in closed session:

Milwaukee County, et al. v. Mercer Human Resource Consulting.

13. Report on Special Investigation

The Board discussed the report on special investigation in closed session.

14. Report on Compliance Review

The Board discussed the report on compliance review in closed session.

15. Adjournment

The meeting adjourned at 11:50 a.m.

Submitted by Steven D. Huff
Secretary of the Pension Board